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Central Liquidity Facility Update

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Introduction

- Recent CLF action
- CLF Background:
 - Membership
 - Capital stock
 - Investments
 - Borrowing authority
- Changes
 - Current Investment policy
 - Future exchange of stock ownership

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Recent Actions

1. Change in investment policy
2. Announcement of future change in stock funding arrangement

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Central Liquidity Facility

- What is mission of CLF?
- Why was its creation necessary?
- How does CLF support mission of credit unions?

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Central Liquidity Facility

- Mixed-Ownership Government Corporation
- Created 11-01-78 (Public Law 95-630)
- Commenced 10-01-79

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CLF Membership

1. Regular Membership

- Direct membership by NPCUs
- 104 Regular Members

2. Agent Membership

- Indirect membership through corporates
- 1 Agent Group of 27 corporates
- Agent Group Representative: US Central

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Regular Membership

FCU Act § 304(a):

A credit union primarily serving natural persons may be a Regular member of the Facility by subscribing to the capital stock of the Facility in an amount not less than one-half of 1 per centum of the credit union's paid-in and unimpaired capital and surplus.

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Agent Membership

FCU Act § 304(b):

A CU or group of CUs, primarily serving other CUs, may be an Agent member of the Facility by—

(1) obtaining the approval of the Board;

(2) subscribing to the capital stock of the Facility...[on behalf of their member NPCUs that are not Regular members]

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How is CLF Capitalized?

- Members subscribe to Capital Stock equal to:
 - $\frac{1}{2}$ of 1% (0.50%) of Paid-in and Unimpaired Capital and Surplus (NPCUs’);
 - $\frac{1}{2}$ of subscription requirement (0.25%) is “paid in” immediately to CLF and the other $\frac{1}{2}$ is “on call”

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Sources of Capital: 06-30-09

(In millions)

- **Subscribed capital stock**
- **Retained earnings**

Capital stock Regular members	\$ 68
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<u>Capital stock Agent members</u>	<u>\$1,751</u>
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Total Capital Stock	\$1,819
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<u>Retained earnings</u>	<u>\$ 11</u>
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Total Equity	\$1,830
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Paid-in Subscribed Stock (Regular members)



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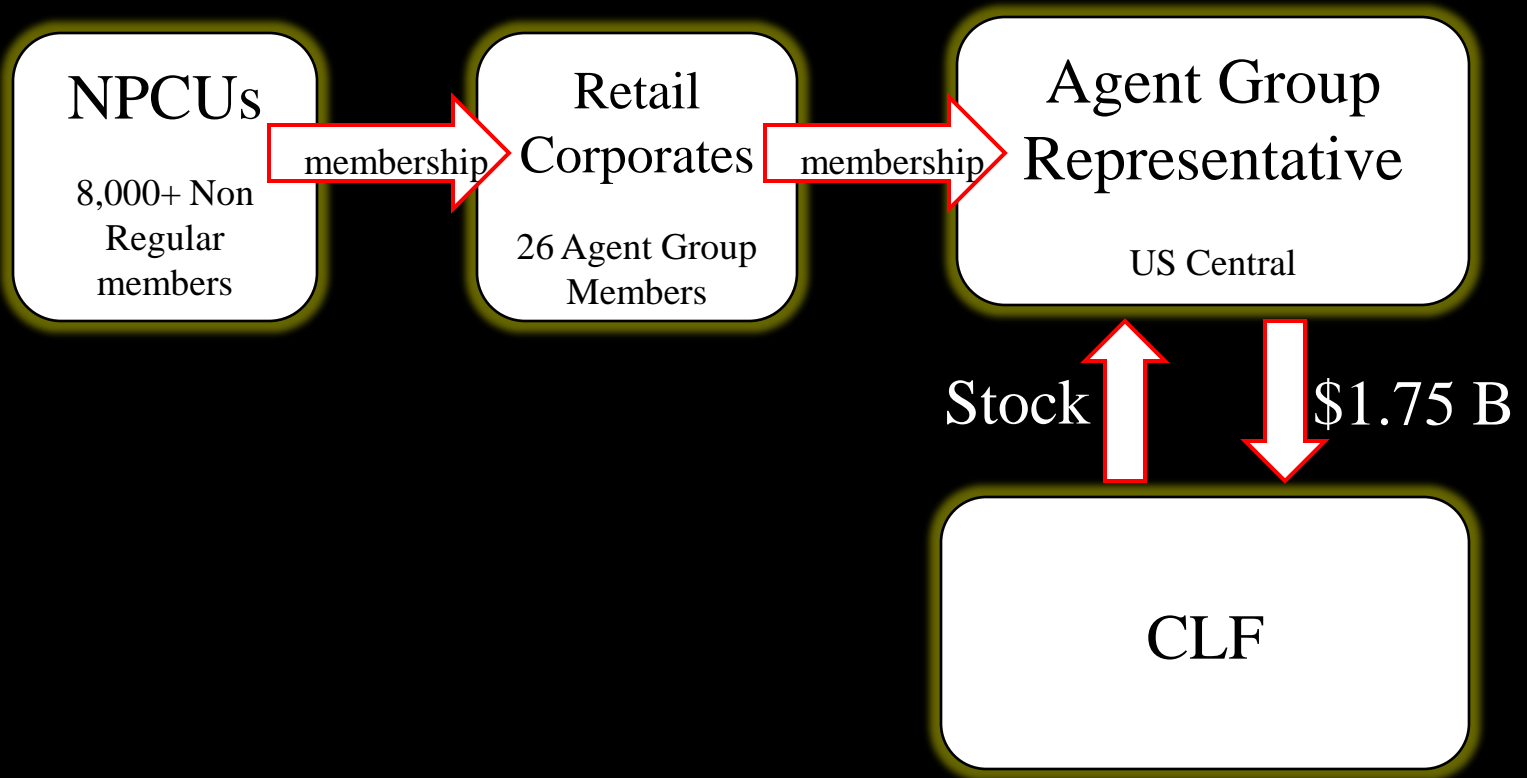
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Paid-in Subscribed Stock (Agent member)



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Investment of Paid-in Stock and Retained Earnings Prior to 08-03-09



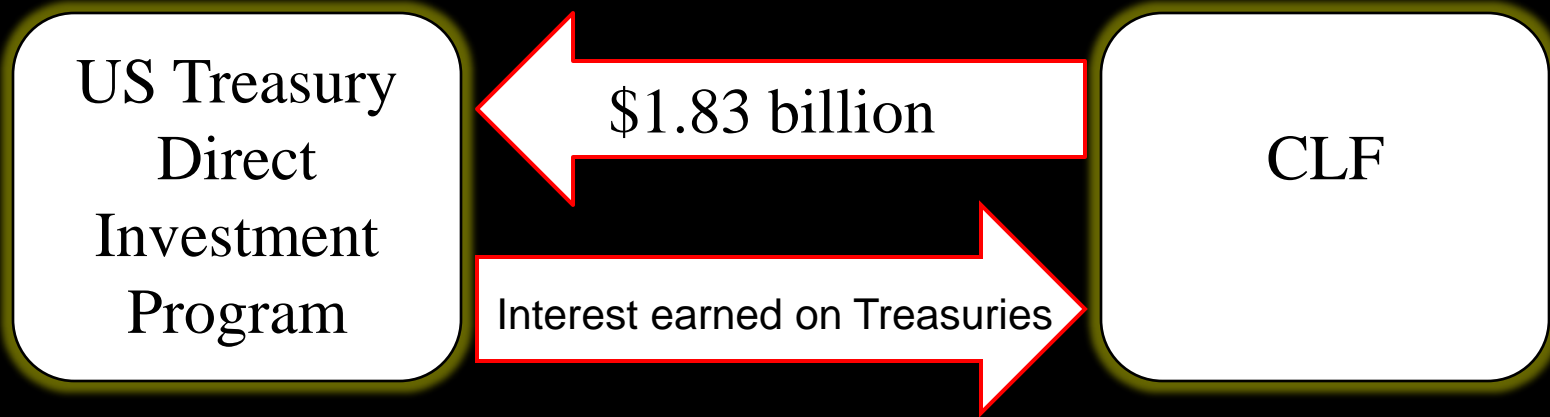
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Current Investment of CLF's Paid-in Stock and Retained Earnings



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CLF Borrowing Authority

FCU Act § 307(a)(4)(A):

CLF may borrow [twelve times the
subscribed capital stock and surplus of
the Facility]

CLF borrows from the Federal Financing
Bank (Department of Treasury)



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Subscribed Capital Stock and Surplus (06-30-09)

Paid-in:

Capital stock Regular members	\$ 68
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Capital stock Agent members	\$1,751
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Total paid-in capital stock	\$1,819
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<u>+ On-call capital stock</u>	<u>\$1,819</u>
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Total subscribed stock	\$3,638
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<u>Retained earnings</u>	<u>\$ 11</u>
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Total <i>subscribed stock and surplus</i>	<u>\$3,649</u>
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Borrowing Authority

Twelve times subscribed capital stock
and surplus based on 06-30-09:

12 x \$3,649 million = \$43.8 billion

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Why the Investment Policy Change?

- Potential Accounting Issue:
 - CLF funds invested in U.S. Central presented as “contra equity”
- Effect if no change were made:
 - CLF’s borrowing authority with Treasury would be reduced



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Why the Need to Change the Agent Stock Funding Arrangement?

- Current stock arrangement is “self-funding” (requires no funds to be raised)
- Cost of U.S. Central’s ownership interest altered by investment change
- No longer makes economic sense for US Central to purchase stock on behalf of all non Regular members

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Financial Presentation

Prior to stabilization efforts:

CLF investment in USC presented under
Assets (approximately \$1,830 million)

Potential presentation requirement:

CLF funds presented as a shareholder
loan under *Equity* (a contra equity)

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Timeline for Changes

1. Change in investment policy was effective 08-03-09
2. Change in stock funding arrangement will be studied in coming months

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Questions?

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